

- 3-1 All parties should comment on whether 12.3.2 of the model Terms and Conditions presently requires LDCs to provide to marketers the baseload and temperature sensitive algorithms used for non-daily metered customers. If your position is that the section does not require LDCs to provide the algorithms, discuss the specific information this section requires the LDCs to provide and whether the model Terms and Conditions should be amended to provide the algorithms. Each LDC should include in its comments the current practice by the LDC on providing the algorithms to marketers.

Response:

It is our recollection that at the time the model Terms and Conditions were negotiated, the intent of that section was to provide marketers with the particulars of any algorithm components, including: baseload, heating load, weekday/weekend factors or other variables used to calculate the ATV. Hess and Select support specific language in section 12.3.2 requiring LDCs to post the components of the algorithms, specifically all variables and their coefficients used to develop the ATV.

- 3-2 Some marketers state that modifying the Model Terms and Conditions to require true-ups of actual versus delivered volumes on a monthly basis will encourage more accurate forecasting and lower costs for all participants. In this regard, please:
- (A) discuss whether you agree with the statement;
 - (B) discuss any potential problems to implementing monthly true-ups instead of semi-annual true-ups; and
 - (C) address whether monthly true ups would address or minimize the need to adjust the algorithms for temperature sensitive usage? If not, please discuss how the data could be made more accurate.

Response:

Monthly true-ups would be more fair as the imbalances for that month would be priced according to prices actually experienced that month rather than an average of the 6 summer or winter months. Monthly true-ups are used in most other jurisdictions at this time precisely because of the disparity that can occur between costs and recoveries for either the LDC or the marketer if longer time periods are allowed to elapse between cashouts. Even if the LDCs move to a monthly true-up however, accuracy of forecasting is still an important issue for reliability and accurate accounting of costs. It has been the experience of several marketers that the LDCs consistently over-forecast on cold days – precisely when prices are at the highest levels – and require marketers to bring in more than their customers require on those days, and then the LDCs cash out at an average cost. Prices fluctuate daily and a monthly cashout should take away a high percentage of the cost impact of the forecast error, however, if cashouts were switched to a monthly basis and the weighted average price were based on 30 days of prices instead of 180, you could have an over delivery costing on the order of \$50-\$60/Dth on a peak day being cashed out at the average of the month, weighted heavily by days where the price may have been in the \$6-\$8 range, and the average in the \$12 range, as was the case this past January (see prices below), leaving the marketer with a \$40/Dth under recovery of their actual costs, and providing the sales customers with an undeserved subsidy. It could also go the other way. It is therefore extremely important that LDCs improve the accuracy of their forecasts.

LDCs have a great deal of experience forecasting customer usage. If they are using a simple baseload and heating factor equation to calculate the ATV for each day, that is not enough. The larger LDCs typically have several other variables that help them fine tune their forecasts to predict sendout. The same sophistication should be employed to forecast transportation customer loads. Furthermore, marketers should be able to review the algorithm components used to predict the deliveries they will be required to bring in to see if the assumptions used are reasonable. The cost implications to marketers and their customers can be high if forecasting accuracy is low.

3-2 (continued)

NYMEX Settle Prices
January, 2004

Date	TGT Z-6	AGT
01-Jan-04	6.03	6.27
02-Jan-04	6.03	6.27
05-Jan-04	6.03	6.27
06-Jan-04	7.51	7.76
07-Jan-04	8.93	9.00
08-Jan-04	8.86	9.21
09-Jan-04	12.06	12.37
12-Jan-04	10.46	10.41
13-Jan-04	7.88	8.21
14-Jan-04	19.92	21.01
15-Jan-04	49.81	63.42
16-Jan-04	20.01	18.60
19-Jan-04	9.97	10.45
20-Jan-04	9.97	10.45
21-Jan-04	8.07	8.13
22-Jan-04	7.20	7.36
23-Jan-04	8.52	8.69
26-Jan-04	9.48	10.73
27-Jan-04	9.81	10.64
28-Jan-04	12.83	13.73
29-Jan-04	13.85	14.70
30-Jan-04	8.97	10.28
Avg Jan	11.92	12.91

- 3-3 Should the Terms and Conditions concerning holiday nomination deadlines be modified to synchronize the nomination schedule over holiday periods with current gas supply industry practice in Massachusetts? Alternatively, does the term “best efforts” by the LDCs as referred to ~~in~~ 11.3.3 and ~~in~~ 12.3.4 of the Terms and Conditions need further definition to standardize the practices among Massachusetts LDCs? Discuss whether a clarification to the Terms and Conditions that equates the LDCs “best efforts” as referred to ~~in~~ 11.3.3 and ~~in~~ 12.3.4 with industry-standard trading and nomination schedules for holidays and weekends would satisfy the marketers’ concerns regarding non-standardization of nomination schedules.

Response:

It is our understanding that the problem arises when the LDC holiday schedule is not synchronized with the Intercontinental Exchange (“ICE”) schedule. We would not want to take away best effort acceptances of holiday, weekend and after hour nominations, but rather would merely request the LDCs to synchronize their holiday nomination schedules according to ICE.